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KEY ANACON MINES LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1972

KEY ANACON MINES LIMITED

(Incorporated under the Laws of Ontario on May 4, 1948)

DIRECTORS	P. J. Dunlay New York, U.S.A.
	J. K. Irving Saint John, New Brunswick
	A. G. Kirkland Saint John, New Brunswick
	D. A. Macfarlane Saint John, New Brunswick
	L. McC. Ritchie Saint John, New Brunswick
OFFICERS	L. McC. Ritchie *President*
	A. G. Kirkland *Vice-President*
	D. A. Macfarlane *Secretary and Treasurer*
	Mrs. M. Jones *Ass't.-Secretary*
HEAD OFFICE	Suite 1101, 21 King St. East Toronto, Ontario
EXECUTIVE OFFICE	Golden Ball Building Saint John, New Brunswick
TRANSFER AGENT AND REGISTRAR	Guaranty Trust Company of Canada Toronto, Ontario
AUDITORS	Thorne Gunn & Co. Saint John, New Brunswick

ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders
will be held on Wednesday, June 13th, 1973
at 2:00 o'clock in the afternoon (Toronto time)
in the Prince Edward Island room,
Royal York Hotel, Toronto, Ontario

KEY ANACON MINES LIMITED

HEAD OFFICE

Suite 1101, 21 King Street East, Toronto 210, Ontario

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual meeting of the shareholders of KEY ANACON MINES LIMITED (the "Company") will be held in the Prince Edward Island room, Royal York Hotel, Toronto, Ontario, on Wednesday, the 13th day of June, 1973, at the hour of 2:00 o'clock in the afternoon (Toronto time) for the following purposes:

1. To receive and consider the financial statements of the Company for the year ended December 31, 1972, together with the report of the auditors on the said financial statements, and the report of the directors;

2. To elect directors;

3. To appoint auditors and to authorize the directors to fix their remuneration;

4. To transact such other business as may properly come before the said meeting or any adjournment thereof.

DATED at Saint John, New Brunswick, this 1st day of May, 1973.

By Order of the Board,

DONALD A. MACFARLANE,
Secretary.

KEY ANACON MINES LIMITED

INFORMATION CIRCULAR

This circular is furnished in connection with the solicitation of proxies by or on behalf of the management of Key Anacon Mines Limited (hereinafter sometimes called the "Company") for use at the annual meeting of the shareholders of the Company to be held in the Prince Edward Island room, Royal York Hotel, Toronto, Ontario, on Wednesday the 13th day of June, 1973, for the purposes set forth in the foregoing notice of meeting.

RIGHT OF REVOCATION

A shareholder executing the enclosed proxy has the power to revoke it at any time before it is exercised. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing deposited either at the head office of the Company at any time up to and including the last business day preceding the day of the meeting or any adjournment thereof at which the proxy is to be used or with the secretary of such meeting on the day of the meeting or any adjournment thereof, and upon either of such deposits the proxy is revoked.

PERSONS MAKING SOLICITATION AND METHOD THEREOF

The enclosed proxy is solicited by the management of the Company and the cost of solicitation will be borne by the Company. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by regular employees of the Company at nominal cost.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

Only shareholders of the Company of record at the time of the meeting will be entitled to vote at the meeting. Each share of the Company is entitled to one vote. The Company has only one class of shares. At May 1, 1973, the Company had outstanding, 8,166,157 shares of 20c par value, all as fully paid.

On the basis of information supplied to the Company on request made by it to each of its directors and senior officers and derived from the list of shareholders of the Company, the following are the names of all persons and companies which beneficially own directly or indirectly, equity shares of the Company, the approximate number of shares beneficially owned, directly or indirectly, by each such person or company and the percentage of outstanding equity shares of the Company represented by the number of shares so owned.

Name	Approximate Number of Shares Owned	Class of Shares Owned	Percentage of Outstanding Equity Shares Represented
K. C. Irving Limited	1,041,385	Common	12.75%
Mercantile Bank and Trust Company Limited	3,491,772	Common	42.75%

ELECTION OF DIRECTORS

There are presently five (5) directors of the Company. The shareholders at the annual meeting will be asked to elect five (5) directors.

The following are the names of the five persons for whom it is intended that votes will be cast for their election as directors pursuant to the proxy which is hereby solicited: P. J. Dunlay, J. K. Irving, A. G. Kirkland, D. A. Macfarlane and L. McC. Ritchie.

The term of office for each director is from the date of the meeting at which he is elected until the annual meeting next following or until his successor is elected or appointed. In the event that prior to the annual meeting any vacancies occur in the slate of nominees submitted herewith, it is intended that discretionary authority shall be granted to vote the proxy for the election of any other person or persons as directors. The management is not presently aware that any of such nominees would be unwilling to serve as a director, if elected.

Mr. L. McC. Ritchie is the President of the Company and Mr. D. A. Macfarlane is the Secretary and Treasurer of the Company at present.

INFORMATION CONCERNING NOMINEES AS DIRECTORS

Name	Date became a Director	Number of shares beneficially owned	Principal occupation for last 5 years
P. J. Dunlay	June 23, 1972	1	Member, Dewey, Ballantine, Bushby, Palmer & Wood (Attorneys-at-Law)
J. K. Irving	June 23, 1972	1	President, J. D. Irving, Limited, Saint John, New Brunswick.
A. G. Kirkland	June 23, 1972	1	Executive in the employ of J. D. Irving, Limited; formerly Mine manager, Brunswick Mining and Smelting Corporation Limited.
D. A. Macfarlane	June 23, 1970	10	Executive in the employ of J. D. Irving, Limited.
L. McC. Ritchie	June 23, 1970	6	Lawyer.

REMUNERATION OF MANAGEMENT

During the year ended December 31, 1972, the aggregate direct remuneration paid or payable by the Company to the directors and senior officers of the Company was $400.

APPOINTMENT OF AUDITORS

It is intended to vote the proxy to appoint the firm of Thorne, Gunn & Co., Chartered Accountants, Saint John, New Brunswick as the auditors of the Company.

PARTICULARS OF MATTERS TO BE ACTED UPON AND DISCRETIONARY AUTHORITY

Management is not now aware that any matters will be submitted to the forthcoming annual meeting of shareholders other than the receipt and consideration of the financial statements, the election of directors and the appointment of auditors, all as referred to in the foregoing notice of meeting. If any other matters not now known to management shall properly come before the meeting, including a vacancy or vacancies caused by one or more of the nominees for directors becoming unavailable for election, the accompanying proxy will be voted on such matters in accordance with the best judgment of the person or persons voting the proxy, and discretionary authority necessary in such event is conferred by any person giving the proxy to management.

MANNER OF VOTING PROXIES

The shares represented by proxies received by the management will be voted, and will be voted in accordance with the statements made above. It is intended that the accompanying instrument of proxy, if signed, dated and returned to the Company prior to the meeting and completed in the names of the persons herein named, will be voted in favour of the approval of the financial statements, in the election of the board of directors and in favour of the appointment of auditors aforesaid, all as set forth above.

THE PERSONS NAMED IN THE ACCOMPANYING INSTRUMENT OF PROXY ARE OFFICERS OF THE COMPANY. A SHAREHOLDER HAS THE RIGHT TO APPOINT ANOTHER PERSON OTHER THAN THOSE NAMED TO REPRESENT HIM AT THE MEETING AND IF USING THE ACCOMPANYING INSTRUMENT, SHOULD STRIKE OUT THE PRINTED NAMES AND INSERT THE NAME OF HIS NOMINEE IN THE SPACE PROVIDED THEREFOR. SUCH PROXY IF APPOINTED MUST BE ENTITLED ON HIS OWN BEHALF TO BE PRESENT AND VOTE AT THE MEETING. A SHAREHOLDER MAY SUBMIT ANY OTHER APPROPRIATE INSTRUMENT OF PROXY.

DATED this 1st day of May, 1973.

By Order of the Board of Directors,

DONALD A. MACFARLANE,
Secretary.

Printed in Canada.

KEY ANACON MINES LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS

We are pleased to enclose herewith the financial statements of the company for the year ended December 31, 1972 together with the auditors' report thereon. Net operating expenses for the year amounted to $66,338 which are being carried forward as deferred expenditures applicable to future periods.

During the year, the company received rights from its shareholding in Brunswick Mining and Smelting Corporation Limited which were sold at their market value and the proceeds credited to the company's deficit account. In addition, 95,900 shares of Brunswick were sold at their market value of $3.80 each to liquidate a current loan of $200,000 plus accrued interest and to provide the company with working capital. The book profit on disposal of the Brunswick shares ($30,688) was also credited to the company's deficit account.

The company's mining property in New Brunswick was maintained in good standing. Your management is not unmindful of the recent improvement in base metal prices and currently has the property's potential under review. If warranted, further exploratory work will be carried on in the summer of 1973.

On behalf of the Board,

April 17, 1973

L. McC. RITCHIE, President.

Thorne
Gunn
& Co.

CHARTERED ACCOUNTANTS
Suite 1400, Brunswick House
Saint John, N. B.

AUDITORS' REPORT

To the Shareholders of
Key Anacon Mines Limited

We have examined the balance sheet of Key Anacon Mines Limited as at December 31, 1972 and the statements of deficit, deferred development and administrative expenditures and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1972 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE GUNN & CO.,
Chartered Accountants.

Saint John, New Brunswick
February 9, 1973

KEY ANACON MINES LIMITED

BALANCE SHEET — DECEMBER 31, 1972

(with comparative figures at December 31, 1971)

ASSETS

	1972	1971
Current		
Cash	$ 58,398	$ —
Accounts receivable	—	230
Prepaid expenses	1,166	1,050
	59,564	1,280
Investment in Shares of Brunswick Mining and Smelting Corporation Limited		
500,000 common shares at cost, less amounts written down - quoted market value $1,800,000; (595,900 shares - $1,698,315 in 1971)	1,752,530	2,086,262
Fixed Assets and Deferred Expenditures		
Mining properties	66,341	66,341
Land, buildings, plant and equipment, at cost	466,895	466,895
Deferred development and administrative expenditures (note 1)	3,500,485	3,434,147
Stores and supplies, at cost	38,279	38,279
	4,072,000	4,005,662
	$ 5,884,094	$ 6,093,204

LIABILITIES

Current		
Bank overdraft	$ —	$ 29,324
Accounts payable and accrued liabilities	12,945	47,188
	12,945	76,512
Other (note 2)		
Bank loan	575,000	575,000
Promissory note	—	200,000
	575,000	775,000

SHAREHOLDERS' EQUITY

Capital Stock		
Authorized		
10,000,000 Common shares, par value 20 cents each		
Issued		
8,166,157 Common shares	1,633,231	1,633,231
Contributed Surplus, Premium on issue of common shares	4,462,308	4,462,308
	6,095,539	6,095,539
Deficit	799,390	853,847
	5,296,149	5,241,692
	$ 5,884,094	$ 6,093,204

Approved by the Board

L. McC. RITCHIE, Director.

D. A. MACFARLANE, Director.

KEY ANACON MINES LIMITED YEAR ENDED DECEMBER 31, 1972

STATEMENT OF DEFICIT

(with comparative figures for 1971)

	1972	1971
Retained earnings (deficit) at beginning of year	$ (853,847)	$ 209,979
Gain from sale of investments previously written off	54,457	6,391
	799,390	216,370
Write off of abandoned mining claims and deferred development and administrative expenses	—	1,070,217
Deficit at End of Year	$ 799,390	$ 853,847

STATEMENT OF DEFERRED DEVELOPMENT AND ADMINISTRATIVE EXPENDITURES

	Balance at beginning of year	Additions	Balance at end of year
Development expenses	$ 2,151,330	$ 8,587	$ 2,159,917
Administrative expenses	1,282,815	57,751	1,340,566
Shares in other mining companies at nominal value	2		2
	$ 3,434,147	$ 66,338	$ 3,500,485

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Source of Funds	1972	1971
Proceeds from sale of investments	$ 388,189	$ 6,391
Application of Funds		
Development and administrative expenditures	66,338	83,394
Payment of promissory note	200,000	—
	266,338	83,394
Increase (Decrease) in Working Capital	121,851	(77,003)
Working Capital (Deficiency) at Beginning of Year	(75,232)	1,771
Working Capital (Deficiency) at End of Year	$ 46,619	$ (75,232)

NOTE — The bank loan has not been included in the calculation of working capital.

KEY ANACON MINES LIMITED

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1972

1. DEFERRED DEVELOPMENT AND ADMINISTRATIVE EXPENDITURES

Development and administrative expenditures amounting to $3,500,485 at December 31, 1972, have been deferred with the intention that they should be amortized by charges against income from future mining operations. Realization of this income is dependent on the known ore body and additional reserves which may be developed in the future becoming economic within the framework of metallurgical recoveries, metal prices and other operating costs.

2. OTHER LIABILITIES

The bank loan, payable on demand, is secured by a pledge of shares of Brunswick Mining and Smelting Corporation Limited.

3. OTHER STATUTORY INFORMATION

	1972	1971
Number of directors	5	5
Aggregate remuneration of directors as directors	$400	$2,900
Number of officers	4	4
Number of officers who are also directors	3	3